15 March 1999

MONEY AND ITS ECONOMIC AND SOCIAL FUNCTIONS

Prof. Dr. Jürgen G. Backhaus
Maastricht University, AE
P.O. Box 616
6200 MD Maastricht
The Netherlands
tel: +31-43-3883636
fax: +31-43-3258440
email: j.backhaus@algec.unimaas.nl

Paper prepared for the conference of the International Atlantic Economic Society
under the auspices of the Boltzmann Institute

Abstract

This essay tries to put Simmel● s Theory of Money into the context of current discussions in economics concerning money. The essay has three parts. Part I looks at the contribution of Georg Simmel in its context, and offers remarks about the changing structure of economics as a discipline composed of many different sub-disciplines. It is argued that Simmel is able to transcend sub-disciplinary borders, and to great benefit for today● s scholar. Secondly, a recent contribution to monetary economics is explained in transactions and property rights terms, since that is the only way to comprehend it and integrate it into the main stream of scholarly discourse, although the contribution has been made more in the context of post-Keynesian economics. Again, it appears that Simmel● s approach of transgressing inner disciplinary borders has merits even today. Thirdly, the perplexing phenomenon of European monetary integration is looked at with a similar perspective in mind. Here, the unifying concept is not monetary economics but constitutional political economy as the main cause to explain the peculiar features of European monetary integration.

Key words: European Monetary Unit, social function of money, Simmel

JEL codes: B25, E0, K10, P10

MONEY AND ITS ECONOMIC AND SOCIAL FUNCTIONS

This paper has been written in direct response to Wolfgang Drechsler● s “Money as Myth and Reality”[1], and its contribution lies in clarifying the status of Georg Simmel● s contribution to the Theory of Money. In economics, we typically emphasize three functions of money, money as a unit of exchange, money as a unit of account and money as a store of value. However, there are clearly other functions which money can perform in an economy and in society at large. Hence, the issue arises as to how to deal with the particularly economic functions just mentioned and those other functions within the same theoretical framework or, alternatively, if different theories have to be invoked, how to delineate these different theories one from the other.

During a demonstration against the regime of president Milosovic, the angry crowd in Belgrave threw Dinar bills towards the presidential palace onto the street, protesting with a currency which, like the government had lost the public ● s trust. Meanwhile, the printing presses of the central bank were turning out new bills with even higher denominations.

Recently in Tehran we noticed the disdain with which people treat their money. There are now six thousands Rials to the US Dollar and the most common bill is a five thousand Rial note. However, people do not quote prices in Rials, rather the population has developed a parlance in terms of its own de-nomination of ten Rials or one Tumán. In oral dealings, all prices are quoted in Tumán. This is as if the general population were collectively ashamed and engaged in a cover up of the inflationary policies of its religious leaders and government. At the moment, the highest de-nomination is a bill of ten thousand Rials, an otherwise pretty (and big) bill; when I first saw it, I instinctively wondered how I would feel as the head of state, depicted favourably on the bill, to have my portrait on such a worthless bill.[2] When routine transactions are requiring carrying pilot cases around, the stage is set for strong sentiments toward money. These instances of anger (in Belgrave), shame and pride are not necessarily and closely related to the basic functions awarded money in economic theory, its use as a unit of exchange, as a unit of account and as a store of value, although, of course, they somewhat refer to these three functions. The function of unit of exchange is clearly impaired if pilot cases have to be carried around.[3] When the population changes the colloquial de-nomination on its own central bank, this is clear evidence for the loss the currency has undergone of its function as a unit of account. While throwing bills on the street in protest does reveal a total dis-appearance of the function of store of value. Yet, anger, shame and pride, while connected to the basic functions of money depicted in economic theory, go far beyond those matters discussed in economics treaties, although they may still have eminently economic but also social and political re-percussions.

It is the purpose of this article to deal with those re-percussions, yet not totally ignoring economic and socio-economic aspects including issues of public choice. To this end, the article has three parts. Part I deals with the contribution by Georg Simmel in his Philosophy of Money specifically in order to discuss its status with respect to economic theory. Part II takes up a different matter yet related to

---

1 Paper prepared for presentation to the second Leangkollen workshop conference on Production Capitalism versus Financial Capitalism; an Evolutionary Perspective. University of Oslo - SUM and Norsk Investorforum, 3-6 September 1998

2 People remarked that the Mullahs just have no pride.

Simmel's contribution. Here we deal with Gunnar Heinsohn and Otto Steiger's recent contribution on the paradigm of money[4]; the third section is devoted to the phenomenon of the Euro, the common currency of the qualifying European Member States. Here, the issue is, of course, not an excess of instability but rather fears of an excessively stable currency.

I.

Prominently, immediately on the third page of his Philosophy of Money[5]. Simmel makes this point on how to understand his "philosophy" of money, where "philosophy" has a very special meaning as shall become apparent shortly. "Not one line in these explorations is meant to be a contribution to economics. By this I mean that the manifestations of valuation and purchase, of exchange and medium of exchange, of means of production and wealth, which economics treats from its point of view, are treated in this work from a different point of view. It is only the mere fact that the economic point of view is at the same time the practically most relevant, the most thoroughly explored and the most precisely modelled, that these three advantages have somehow created the notion that they are the economic facts as such. [yet] each exchange can with equal legitimacy be treated from a

---

3 When I lived in Chile under the Allende regime, I had a little black leather suitcase to keep the five hundred peso bills of which several where needed for a bus ride; my friends referred jokingly to my "maletito magico".

4 Gunnar Heinsohn and Otto Steiger, The Paradigm of Property, Interest and Money and Its Application to European Economic Problems; Mass Unemployment, Monetary Union and Transformation, Bremen: Institut für Konjunktur und Strukturforschung, Discussion Paper nr. 10, July 1997.

5 Georg Simmel, Philosophie of Geldes, Berlin: Duncker & Humblot, 1930, 5; the book counts more than 585 pages in its fifth edition, see also the translation in English of the second edition under the title: Georg Simmel, The Philosophy of Money, translation of the second, enlarged edition by T. Bottomore and D. Frisby with an introduction by D. Frisby, London/Boston: Routledge and Keegan Paul [1907], 1978, pp. XII + 512

psychological point of view, from the point of view of social and moral history or even be viewed as an aethetic fact.⚒ (p. VII)

In order to translate this research program here sketched with just a few broad brushes, Simmel has organized his work into two main parts, an analytical part, providing the foundations and a synthetic part in which the different perspectives are then focussed onto a particular phenomenon or set of phenomena. The analytical part has three chapters dealing first with value and money, second with the value of money as a substance and thirdly with the functions of money. The second - synthetic part - of the Philosophy of Money has likewise three chapters. Chapter four deals with individual liberty, chapter five with the monetary equivalent of personal values and chapter six with the style of life. In these chapters of the second half of the book, Simmel, the great master of economic sociology, can show the extent to which drawing on different points of view, sets of evidence from largely differing bodies of literature and combining these different approaches and types of evidence synthetically into a common perspective focussing on a specific aspect of life, notably economic life, can bring insights necessarily outside the realm of monetary economics in both theory and empirical applications. This raises the question of whether Simmel● s contribution and work building on it can be considered part of economics at all.

It is not quite superfluous to raise this question today. We could, of course, take an agnostic view and emphasize that Simmel● s Philosophy of Money has recently been translated into English and been reviewed by two leading monetary theorists in the leading journal of the profession, The Journal of Economic Literature[6]. Actually, the very title of the article makes it clear that Laidler's and Rowe's treatment is intended only to give a partial rendition of what is seen by them as a more encompassing study.

We could also take the slightly less agnostic view and point out that upon its appearance the study was immediately reviewed by the editor of the then leading journal in economics, Gustav Schmoller.[7] Even a synopsis of the study itself had appeared as a lead article in the same journal. Yet the very title of the journal, annual for legislation, administration and economics in Germany clearly reveals a broader scope than that of economic only, just as Simmel wanted to go beyond a purely economic point of view. When Simmel's theories were discussed in Schmoller's seminar at the University of Berlin, later published in the journal and in book form, to be revised through its several editions, a fundamental change took place in economics and the social sciences. Simmel himself is one of the founders of modern sociology, which became a separate discipline shortly after the book had been published and while it was going through its several editions. Hence, the boundaries of economics with its other neighbouring disciplines not only began to change due to the emergence of new ones; the more fundamental change took place as the boundaries of the old and new disciplines did not necessarily take up the entire realm of scholarship, creating overlaps and lacunae of territory that later nobody seemed to claim. To a certain extent, the work of German economists of the time, and notably those who where looking beyond purely economic questions became forgotten with time, since they no longer formed part of the core of the discipline as it developed. This is true for the

---

6 See David Laidler and N. Rowe, "Georg Simmel's Philosophy of Money; a Review Article for Economists", Journal of Economic Literature, 1980, pp. 97-105

7 Gustav Schmoller, "Simmels Philosophie des Geldes", Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaften im Deutschen Reich, 25 (3), 1901, pp. 799-860

work of Werner Sombart, Max Weber, Georg Simmel but also for their American counterparts writing at the same time, as it is true for the contributions of Italian, French or British economists. As we are confronted with new problems, such as, for example, issues of the transformation of economies formerly belonging to the spheres of influence of the Soviet Union or as we are confronted by issues in relation with the common European currency which defy economic analysis proper, we are well advised to go back to those earlier studies which may contain hints that may be helpful today. Hence, it is by no means superfluous to re-claim those contributions to economics proper. Yet, where in the landscape of economics today should we place Georg Simmel● s Philosophy of Money?

In order to answer this question, we first have to emphasize his peculiar use of the term philosophy. What he terms philosophy is a synthetic view of different aspects which do not form the basic issues of value, exchange and production. He is interested in questions that have to do, as he says, with the style of an economy, and this is an issue which needs to be discussed in the context of the sub-discipline of comparative economic systems, with issues such as our ability to value life chances, loss of life or limb and the like, an issue arising in health economics, law and economics and cost-benefit analysis, or with problems around the organization of exchange when trust and knowledge is an issue, a matter squarely important for transactions cost analysis. Incidentally, I have just given a modern re-phrasing of the content of the last three chapters of the book, and it becomes immediately apparent that the contribution here goes to various current economic sub-disciplines, notably to public finance (JEL code: H, notably H43), health economics (JEL code: I, notably I12), law and economics (JEL code: K, notably K13) and economic systems (JEL code: P, notably P17).

It is obvious that this exercise can be continued as we go through the different contributions made by Georg Simmel, and that, by translating it back into the context of modern economic discourse, we are able to re-claim his work for the discipline today, if only we can show to the readers' satisfaction that the contribution is valid and important in addressing relevant problems of either economic history or current economic performance.

II. The Paradigm of Property, Interest and Money

Recently, two authors working at the University of Bremen published a study (in German) entitled "Property, Interest and Money; Unsolved Puzzles in Economics".[8] The book, almost as voluminous as Simmel's with its 544 pages, draws on a large body of evidence from many different disciplines, including economics, sociology and even ethnology. The basic suggestion of the book, however, can be readily stated. In quoting from an English summary, we read: "Our approach and the three major schools of economics [i.e. classical economics, neo-classical economics and Keynesianism] have to analyse one and the same economic system. They all explicitly concede the existence of money and interest and the necessity to explain these fundamentals. Moreover, they all make use of the term property. Our analysis will show that these three schools fail to re-comprehend the formative economic role of property. They resemble a fish which does not know of water before it is pulled out of it. None of them can grasp property's unique capacities to back by its encumbrance and to serve as collateral. Yet it is this very capacity that a loan creates interest and

8 Gunnar Heinsohn and Otto Steiger, Eigentum, Zins und Geld: Ungelöste Rätsel der Wirtschaftswissenschaft, Reinbek bei Hamburg: Roohlt, 1996

money.[9] Their basic proposition is correct and it could help if it played a major role in courses on monetary economics. Law and economics has not penetrated monetary economics to a great extent yet, and in this sense, the two authors at the University of Bremen have made a contribution. However, the contribution is relatively simple. The authors have simply re-invented the theory of property rights and applied it to understanding the role of money. Well, herein lies the twist of interest to both historians of economic thought and economists of monetary affairs (who seem sometimes to be given to creating a certain myth around the basic institution of money,) which through its three basic function creates the ability to transfer property not only at present times but also over time inter-temporarily and even across nations and generations. Herein lies the contribution of this basic property rights theory of money.

What is puzzling is the belief of the two authors from Bremen that they have invented something new. Each contribution to the economics of property rights I have consulted has the same point. To begin with, in the New Palgrave Dictionaries of Economics and the Law, in the entry on property rights written by Harald Demsetz, we find the three crucial elements of property rights to have to be exclusive, alienable and presumptive rights. Alienability allows for the use as collateral and for it to be encumbered or re-partitioned.[10] Similarly, in the selected readings edited by Svetozar Pejovich entitled The Economic Foundations of Property Rights[11] we find the traditional differentiation of property rights in the three aspects of the right to use, the right to the fruit or usus fructors, and the

---

9 In Gunnar Heinsohn and Otto Steiger The Paradigm of Property, Interest and Money and Its Application to European Economic Problems: Mass Unemployment, Monetary Union and Transformation, Institut für Konjunktur und Strukturforschung, Discussion Paper nr. 10, University of Bremen, July 1997.

10 Harald Demsetz, "Property Rights", The New Palgrave Dictionary of Economics and the Law, Peter Newman (ed.), London: MacMillan, 1998, vol. 3, p. 146

right to abuse or change a particular right, where the right of usus fructus allows for a piece of property to be used as collateral, the right of abuse the ability of encumbrance. This three fold definition of the property right has been part of Roman law for as long as it has been taught. Thirdly, in the reader by Eirik Furubotn and Rudolf Richter entitled The New Institutional Economics: A Collection of Articles from the Journal of Institutional and Theoretical Economics[12], on page on page 6 we find the same definition with the appropriate explanations. To quote: "there are various categories of property rights; the right of ownership however is the best known. By general agreement, the right of ownership in an asset consists of three elements; (a) the right to use the asset (usus), (b) the right to appropriate the returns from the asset (usus fructus), ▸▸ the right to change its form, substance and location (abusus). This last element, which amounts to the right to bear the consequences from changes in the value of an asset, is perhaps the fundamental component of the right of ownership. It implies that the owner has the legal freedom to transfer all rights (e.g., to sell a house) or some rights (e.g., to rent a house) in the asset to others at a mutually agreed-upon price. Effectively, the flexible right of transfer induces an owner to operate within an infinite planning horizon and, thus, to show concern for the efficient location of resources over time.⚒ (p. 6)

This example shows, with remarkable clarity, that crossing sub-disciplinary boundaries in economics, as between monetary economics and law and economics, for instance, can yield substantial returns. Simmel● s synthetic view may not only be important for the reasons Simmel had in mind himself, it even shows up when we are trying to understand modern contributions to economics which somehow seem to fall, on the surface, outside our acquired patterns of recognition.

---

[11] Cheltenham: Edward Elgar, 1997

[12] Tübingen: Mohr Siebeck, 1991

III. The European Common Currency

One of the most remarkable recent developments concerning money on the surface has very little to do with its three fold function to serve as the unit of exchange, the unit of account and to store the value. The European common currency is above all a symbol of European unity, and the convergence criteria on which accession to the system depends do not bear directly on all three of these functions, as they emphasize public deficits, the accumulated public debt in relation to the national product and, this bears on the three functions somewhat directly, price stability of an acceeding country, yet again not in a strict sense. If we consider, for instance, the stability of the German currency, what is stable is, above all, its constant de-valuation. As a little boy, in order to send a postcard I could use a ten Pfennig stamp with the effigy of Martin Luther on it, to do the same now requires a one Mark stamp in an industry that should, over the last four decades, have been able to experience substantial productivity increases. In fact, even small monetary de-stabilisations do affect a multitude of market signals and therefore do dampen productivity growth. If we stand the acceptable productivity growth in an economy at one to two percentage points per year, and if we add other forms of real growth such as those due to the increase in the natural interest rate as a consequence of new markets becoming available, one is surprised that a zero rate of inflation is considered the ultimate sign of monetary stability, when in fact productivity growth should lead for at least some prices to fall, and, this not being off-set by productivity decline elsewhere, the price level as a whole should be expected to fall, which implies that a zero rate of inflation is not yet what can be considered price stability. Bearing this in mind, the discussion about the emergence of the European currency has been bewildering. It can be understood only by de-emphasizing the issue of money in the sense of monetary economics and looking at different issues, in this particular case the attempt to put together elements of the emerging European constitution, in particular with respect to the role of the public sectors at the European level, the level of the Member States, the level of the constituent states of Member States, and the local level.

We should keep this in mind, and look at the issue in its different dimensions.

Although the Maastricht Treaty belongs to the set of documents which form part of an emerging constitution for the United States of Europe, little law and economics analysis has been devoted to its understanding. A central aspect of the Treaty is, of course, very much in the public eye. The introduction of the common European currency, the Euro, symbolizes[13] the coming of age of European statehood, a symbol that will pass through the hands of Europeans as a matter of daily routine from the year of 2002 onwards. The third and revised edition of Paul de Grauwe ● s The Economics of Monetary Integration[14] offers a good introduction into the subject area which may form a solid starting point for serious law and economics analysis.

1. The Convergence Criteria

13 The symbolic aspect of this mainly politically motivated venture should not be underestimated. Since the introduction of the Euro is primarily driven by political motives, economic considerations taking a back seat, a good grasp of the problem field is offered by Georg Simmel, Philosophie des Geldes, Berlin: Duncker & Humblot, (1907)1930 (5). An English translation is available, Georg Simmel, Philosophy of Money, London: Routledge, 1978.

14 The Economics of Monetary Integration. Oxford: Oxford University Press, 1997. ISBN 0-19-877549-0

The transition to a Monetary Union (de Grauwe, 1997, 126-155) according to the Maastricht Treaty requires for a Member State that wishes to acceed to the Union meeting the five convergence criteria, to wit:

1) The country● s inflation rate is not more than 1.5 % higher than the average of the three lowest inflation rates in the European monetary system;

2) Its long term interest rate is not more than 2 % higher than the average observed in the three low inflation countries;

3) It has not experienced devaluation during the two years preceeding the entrance into the Union;

4) Its government budget deficit is not higher than 3 % of its Gross Domestic Product (if it is it should be declining continuously and substantially and come close to the 3 % norm, or alternatively, the deviation from the reference value (3 %) should be exeptional and temporary and remain close to the reference value (article 104, C (A));

5) Its government debt should not be exceed 60 % of Gross Domestic Product (if it does, it should diminish sufficiently and approach the reference value (60 %) at a satisfactory pace (article 104, c (b)).

Astonishingly, at the end of February 1998, the eleven countries expected to join the European Monetary Union, thereby merging ten different currencies, were reported to have met the 3 % criterion, a remarkable feat when in 1995, the figure still stood at 4.6 %, in 1996 at 4.2 %, whereas the 1997 estimate stands at 2.8 % and the 1998 forecast even at 2.7 %.

Taken together the five criteria provide a remarkable framework for a large market area with a common currency. The secular reduction in inflation rates and hence inflation expectation can be expected to foster both growth and productivity enhancements. The lower the inflation to be reckoned with, the more precisely market signals can be taken into account, and the more extensively comparative advantages can be exploited through buying and investment decisions. The dramatic productivity decline in the United States during the eighties was attributed, as we recall, by many economists to high inflation, among other factors. Low long term interest rates at only 2 % above stable currency countries' bond rates should likewise be expected to favour long term investment, a factor that would help, in the long run, in re-building the former state socialist economies, at this point the five new federal states of Germany, but in the longer run also the economies of Poland, Hungary, the Czech Republic, Slovenia and Estonia.

It should be noted that the constraints on the state budgets are compatible with very different economic styles.[15] The convergence criteria are silent about the size of the public sector, a slim minimalist state is equally compatible as a baroque expansive public sector, as long as it is contained within the dual realm of the 60 % and 3 % criteria. Particularly, the 3 % criterion does not restrict public infrastructure investments as long as these investments can be expected to generate positive returns. If they do, off budget methods of financing are easily available, yet if they do not they cannot

---

15 The concept of "style" of economic conduct is a key notion we owe to the historical school. It was used by Schmoller, Sombart, Spiethoff and Schumpeter, who took *style* as a term of economic sociology. In order to understand and correctly interpret economic phenomena, one may want to look at the leading ideas and convictions (spirit) to whic people subsribe and which will guide their actions; secondly at the techniques at their disposal; and thirdly at the organizational forms in which means and ends are combined or, alternatively, in which spirit and technique find their institutional realization. Spiethoff actually gives five categories, <u>i.e.</u> the economic spirit, the natural and technical resources, the constitution of society, the constitution of the economy, and the economic process. For details see Spiethoff (1932) or Schefold (1981, p. 113). The term "style" should be taken as a technical term and not be read as the opposite of "substance". Differences in economic style are a matter of substance indeed.

be accounted as investment but rather as consumption. Herein lies the deeper importance of the convergence criteria, as they reign in entitlements and other consumptive programs.

2. A Point of Theory and History

The approach taken with the Maastricht Treaty to bringing about a monetary union is by no means the only conceivable one. Economic theory would rather have pointed to a competition of different currencies with the most stable one emerging as the preferred one, i.e. a market decision would have taken place instead of a political one. In principle, a common market requires not a single currency, it is rather compatible with a large number of different competing currencies, as long as the different units of exchange can be compared through a common unit of account.[16]

In fact, if we compare the project of the European Monetary Union with the German Monetary Union of 1871[17], it appears that the latter occurred much more according to the precepts of economic theory[18]. When the Reich was established, its twenty five constituant states enjoyed not only seven different currencies, but more importantly the Reich had two currency systems existing side by side, the gold standard and the silver standard. In late 1871, an act was passed concerning the minting of imperial gold coins. These coins were minted neither as thaler nor as guilders but rather as mark. In the Hanseatic cities of Bremen and Hamburg, the Mark Banco had been used as a unit of account, but the leading currencies were the thaler in the northern states

[16] See Leland Yeager, Deregulation and Monetary Reform, American Economic Review, Papers and Proceedings, 75.2, 1985, pp. 103-107 with further references.

[17] In fact, in 1871 there was only the extremely modest beginning of a Reich prerogative in the Constitution.

including Prussia and the guilder in the southern ones. The act provided for only two coins, a coin of ten and of twenty Mark respectively. These coins became extremely popular, and thus emerged the new common currency. It took until 1873 for another act about imperial coins to be passed, and until 1875 for an imperial central bank to emerge, which started its operation on January 1, 1876, being the former Prussian Central Bank. Yet surprisingly, only in 1909 was a pure gold standard finally adopted, i.e. during the longest part of the duration of the empire, from 1871 till 1909, there were two different currency standards. The coins and bills, by the way, in circulation in the empire, similar to what is to be expected in Europe, were allowed to bear the different state symbols such as the effigy of the respective sovereign of the constituant states, there being no less than four kingdoms among the twenty five states.

Yet, there was one important difference between the German Currency Union and the European Monetary Union according to the Maastricht Treaty. The Central Bank of the empire was conceived as the house bank of the state, whereas the European Central Bank according to articles 104 and 107 of the Treaty is totally independent from any public entity. The Treaty, in fact, provides for much more Central Bank independence than the German Central Bank act which can be amended by a simple majority of parliamentory votes. The status of the Imperial Bank (Reichsbank) also holds the key for understanding the two German hyper inflations which still cast their shadow into today●s monetary decisions. Both the first World War and the second World War were financed by debasing the currency. The German war chest in 1914 was sufficient for only two days of combat, a

[18] See Karl Häuser, Deutsche Währungsunion nach 1871: Modell einer Europäischen Währungsunion?, Deutsche Bundesbank Auszüge aus Presseartikeln, Frankfurt, February 20, 1997, pp. 4-9.

point well known and emphasized by German economists well ahead of time.[19] In this sense, it can be said that the German hyper inflation of 1923 was caused by a decision taken in the fall of 1914, and the currency reform of 1948 was necessary as a consequence of the Reichsbank policies under Hjalmar Schacht despite the provisions of the bank act of 1926.

[19] Josef von Renauld, Die finanzielle Mobilmachung der deutschen Wehrkraft, Leipzig, 1901. See also, Carl-Ludwig Holtfrerich, The German Inflation 1914-1923. Berlin: De Gruyter, 1986, pp. 108-109.

3. Devaluations and the Cost of the Monetary Union

The cost of joining a monetary union, in economic theory are generally seen as consisting in two types; the loss of seignorage, i.e. the returns from issueing money, to the government for which a central bank operates as a house bank; and the inability to conduct economic policy through revaluations of the currency.[20] There can, of course, be doubts about these theoretical arguments. A country with a booming export sector may, indeed, enjoy a temporary trade surplus with a trading partner, involving a trade deficit of the partner. The resulting change in relative prices, however, should ultimately also result in the second countries' ability to find offsetting comparatively more advantageous export products to the former country. From the point of view of the Maastricht Treaty, neither these macro-economic "costs" can be classified as such. It is the express purpose of the Treaty to prohibit the monetization of public debt, henceforth, and to dis-allow revaluations in order to strengthen the operation of the internal market in goods, services, capital and labour. Devaluations or revaluations stunt this development by frustrating consumers and investors in their purchasing choices. If to remain in the example just chosen, the export sector of the first country booms due to superior products, revaluing the currency of the exporting country or devaluing the currency of the importing country makes those preferred products more expensive, and artificially so, thus frustrating market forces.

[20] This is extensively discussed in the first part of de Grauwe's book, notably with reference to different labour market institutions, often with reliance on arguments involving a Phillips curve (e.g. p. 13) or wages that are sticky downwards.

4. Adjustment Problems

Stable money is often said to require more than the appropriate institutional prescription such as those laid down in the Maastricht Treaty.[21] In fact, the provision of article 105 is very explicit in assigning price stability as the uncompromisable goal of the Central Bank. Only "without prejudice" to this goal shall the European Central Bank "support the general economic policies of the community with a view to contributing to the achievement of the community" as laid down in article 2. In particular the rules of democratic accountability of the European Central Bank to other European institutions such as the Council, the Commission and the Parliament will constitute the links through which the broad political and social consensus will be transmitted into Central Bank decisions. In future law and economics research, it will be important to look precisely at the institutional details according to which this process of democratic accountability manifests itself.

5. Democracy in Deficit[22]

More than twenty years ago, James M. Buchanan and Richard E. Wagner published their analysis of "the political legacy of Lord Keynes" calling for constitutional norms to re-establish sound fiscal principles. Despite serious efforts, no practical way has been designed in the public choice litarature

---

21 For instance, the president of the German Central Bank, on February 11 in a lecture at the University of Cologne, expressed this point like this: stable money requires in particular the support by a broad political and social consensus. Many factors beyond monetary policy, for instance the expenditure and boaring behaviour of the participating states or the wage policy, in the long run will influence the value of the currency. See Hans Tietmeyer, Die Geldpolitik der europäischen Zentralbank, Deutsche Bundesbank, Auszüge aus Presseartikeln, February 13, 1998, p. 1.

to build a political consensus that would provide for effective constitutional principles that could achieve this purpose. It is easy to show, for any specific proposal of a constitutional amendment, how it can be circumvented by a willing majority of Congress. It must come as no small surprise that the intricate procedure established by the Maastricht Treaty in order to accomplish the project of the European Monetary Union has seemingly turned out to be that very political path through which the re-instatement of fiscal discipline has been accomplished, at least by approximation and at least for the time being, with even Greece missing the 3 % criterion by only one percentage point, and four democracies (of Denmark, Finland, Ireland and Sweden) reporting deficits for 1997 at less than 1 %.

6. Conclusion

This essay provides an introduction into Georg Simmel● s Theory of Money. Simmel explores the social functions of money. With the help of his theory we can understand symbolic issues and behaviour in relation to money, recent attempts to provide a property rights theory of money and aspects of the introduction of a common European currency which do not reflect the three main functions of money as a unit of account, a unit of exchange or a store of value.

---

[22] See James M. Buchanan and Richard E. Wagner, Democracy in Deficit, New York: Academic Press, 1977.

References

James M. Buchanan and Richard E. Wagner, Democracy in Deficit, New York: Academic Press, 1977.

Harald Demsetz, "Property Rights", The New Palgrave Dictionary of Economics and the Law, Peter Newman (ed.), London: MacMillan, 1998, vol.

Paul de Grauwe, The Economics of Monetary Integration. Oxford: Oxford University Press, 1997. ISBN 0-19-877549-0

Karl Häuser, Deutsche Währungsunion nach 1871: Modell einer Europäischen Währungsunion?, Deutsche Bundesbank, Auszüge aus Presseartikeln, Frankfurt, February 20, 1997, pp. 4-9.

Gunnar Heinsohn and Otto Steiger, The Paradigm of Property, Interest and Money and Its Application to European Economic Problems; Mass Unemployment, Monetary Union and Transformation, Bremen: Institut für Konjunktur und Strukturforschung, Discussion Paper nr. 10, July 1997.

Gunnar Heinsohn and Otto Steiger, Eigentum, Zins und Geld: Ungelöste Rätsel der Wirtschaftswissenschaft, Reinbek bei Hamburg: Robohlt, 1996

Carl-Ludwig Holtfrerich, The German Inflation 1914-1923. Berlin: De Gruyter, 1986.

David Laidler and N. Rowe, “Georg Simmel’s Philosophy of Money; a Review Article for Economists”, Journal of Economic Literature, 1980, pp. 97-105

Josef von Renauld, Die finanzielle Mobilmachung der deutschen Wehrkraft, Leipzig, 1901.

Georg Simmel, Philosophie des Geldes, Berlin: Duncker & Humblot, (1907)1930 (5). An English translation; Georg Simmel, Philosophy of Money, London: Routledge, 1978.

Bertram Schefold, “Die beiden Wege”, in: Meier-Abich/Schefold, 1981, pp. 133-162

Gustav Schmoller, “Simmels Philosophie des Geldes”, Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaften im Deutschen Reich, 25 (3), 1901, pp. 799-860

Georg Simmel, Philosophie of Geldes, Berlin: Duncker & Humblot, 1930

Georg Simmel, The Philosophy of Money, translation of the second, enlarged edition by T. Bottomore and D. Frisby with an introduction by D. Frisbee, London/Boston: Routledge and Keegan Paul [1907], 1978, pp. XII + 512

Arthur Spiethoff, “Die allgemeine Volkswirtschaftslehre als geschichtliche Theorie: Die Wirtschaftsstile”, in: Arthur Spiethoff (ed.), Festgabe für Werner Sombart zur Siebenzigsten

Wiederkehr Seines Geburtstages. Neunzehnter Jänner 1933, München: Duncker & Humblot, 1933, pp. 51-84.

Hans Tietmeyer, Die Geldpolitik der europäischen Zentralbank, Deutsche Bundesbank, Auszüge aus Presseartikeln, February 13, 1998, p. 1.

Leland Yeager, “Deregulation and Monetary Reform”, American Economic Review, Papers and Proceedings, 75.2, 1985, pp. 103-107.